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Financial

-2.94	-1.06	+35.67	-1.65	+344.89	-0.36	+0.97	-14.04
7161.49	3886.07	20104.18	2296.72	19402.39	105.19	56.45	1186.28
FTSE 100	FTSE All Share	Early Dow Indl	Early S&P 500	Nikkei 225	UK 10-year gilt	Oil ($ per barrel)	Gold ($ Troy oz)

£/€		£/$	
Rate £	1.1801	Rate £	1.2589
Change	+0.0057	Change	-0.0025

Surprise consumer spending rise propels economy to 0.6% growth

GDP increase defies City forecasts of Brexit effect

Chancellor warns there may be uncertainty ahead

Julia Kollewe and Katie Allen

Strong spending on high streets, in bars and on holidays has helped the economy end 2016 on a strong note and once again confounded economists' forecasts of a Brexit-induced slowdown.

Official figures showed Britain's vast services sector helped GDP grow 0.6% in the final three months of the year, faster than the 0.5% expected among City forecasters. The robust end-of-year performance meant growth for 2016 as a whole was 2.0%, putting Britain on course to be the best performing economy last year in the G7 group of major economies.

The figures are in stark contrast to gloomy forecasts made before and right after the EU referendum, when experts warned the vote to leave could prompt a sharp economic slowdown as businesses and consumers reined in spending. In the event, robust consumer spending boosted retailers and other service businesses such as hotels and restaurants in the final quarter. There was also modest growth for manufacturing and construction firms.

The 0.6% figure matched the pace of expansion in the second and third quarters.

The year ahead looks likely to be more challenging for the economy, however, as higher inflation dampens consumer spending. The chancellor, Philip Hammond, has been among those highlighting an uncertain outlook. But he welcomed signs that the economy was going into 2017 on a firm footing.

"Every major sector of the economy grew last year, which is further evidence of the fundamental strength and resilience of the UK economy," he said. "There may be uncertainty ahead as we adjust to a new relationship with Europe, but we are ready to seize the opportunities to create a competitive economy that works for all."

But economists noted signs that the momentum may not carry far into 2017. Spending appears to have slowed over the crucial Christmas period for retailers, and to have lost further momentum in January. Inflation has risen to its highest level in more than two years on rising global oil prices and as the pound's weakness since the referendum raises the cost of imports to Britain. Economists say wages will struggle to keep pace with the pick-up in inflation as the Brexit process makes employers more nervous.

"The sterling-related inflation squeeze on households is only just beginning - we expect the inflation rate to roughly double by the end of this year from the latest December estimate of 1.6%," said Chris Hare, an economist at analysts Investec.

The TUC has said that any blow to household budgets from a Brexit-related rise in living costs this year would add to existing pressures.

The trade union body noted that GDP growth in the seven years since the financial crisis had averaged 2% a year, lower than the 2.7% in the seven years before. Its general secretary, Frances O'Grady, said: "Our economy may have been resilient in the face of the Brexit vote, but GDP growth is stuck in the slow lane. And people are still feeling the financial crisis in their pockets. This isn't a time for government complacency. 2017 will be a challenging year, so ministers can't let us sleepwalk into another living standards crisis."

The Office for National Statistics said fourth-quarter GDP growth was dominated by services, which accounts for nearly 80% of the economy.

The services sector grew 0.8% between October and December, while industrial production was flat and construction edged up 0.1%. Within production, manufacturing posted a strong gain of 0.7% mainly due to pharmaceuticals exports, which tend to be erratic, but this was offset by a sharp drop in oil production caused by a change in timing of maintenance in a North Sea oil field. Agriculture returned to growth, of 0.4%, after three quarters of decline.

A separate survey from the CBI showed retail sales volumes fell unexpectedly in the year to January, but that firms expected growth to return next month.

Philip Hammond with Microsoft's UK chief executive, Cindy Rose, in Reading yesterday Photograph: Andrew Matthews/PA

Sector by sector A mixed picture

Services
This sector accounted for almost all the economy's growth in the final quarter of 2016. By far the biggest part of the UK economy, it includes a broad range of private sector and government services, such as hotels, bars, banking, retail and healthcare. Much of the growth came from retail, but hotels, restaurants and travel agents also enjoyed strong results, and car sales helped, too. However, it is unclear whether consumer spending can continue to drive growth this year as rising inflation hits household budgets.

Agriculture
It was a brighter end to the year for the agriculture sector in Britain, which managed to grow again after three consecutive quarters of decline. Output for the sector rose 0.4% in the fourth quarter, but given agricultural output makes up less than 1% of the UK economy, that made little difference to overall GDP growth. Comparing the final quarter of 2016 with the picture a year earlier, the impact of those declines in the previous three quarters of 2016 was clear to see, with agriculture's output down 1.6%.

Construction
After a sharp fall in the third quarter, Britain's construction sector produced a little growth in the final three months of the year, with output up 0.1%. The sector, which makes up 6% of the economy, had a tough year overall in 2016. Output was up only 1.4% from the year before - a marked slowdown from 4.9% growth in 2015. Industry bodies highlight challenges ahead, including a loss of confidence as Brexit unfolds, skills shortages and rising prices for materials as the weak pound makes imports more expensive.

Analysis
Recession at bay as we carry on spending

Larry Elliott

It was supposed to be the moment of truth. Had the economy performed as George Osborne predicted it would in the fevered days before the referendum, late January 2017 would have been the moment when official data showed that output in the UK had contracted in both the third and fourth quarters of 2016 - the definition of a recession.

Instead, Philip Hammond was in the happy position of being able to use a visit to Microsoft's UK headquarters in Reading to announce that growth in the final three months of 2016 had been 0.6% - the same as in the previous two quarters. Hammond said the reason the Treasury had got it so wrong was that it had assumed the government would trigger article 50 negotiations with the EU straight after the Brexit vote, and had not reckoned on the Bank of England providing post-referendum stimulus.

This is not wholly convincing. Given that nobody in Whitehall was prepared for a vote to leave, the idea that Britain would start immediate divorce proceedings was highly unlikely. Nor was it feasible that Mark Carney and the monetary policy committee would sit on their hands.

A better explanation for the robust performance of the economy is that consumers have carried on spending. The factors that underpinned domestic demand before the referendum - low unemployment, rising house prices and rock-bottom interest rates - are still in place. The Bank's decision to cut rates and for more quantitative easing in August has created even more growth-friendly conditions.

Those who confidently predicted that the economy would plunge immediately into recession now have an alternative narrative, namely that the real pain will not come until article 50 has been triggered. This, though, is not what they were saying six months ago and necessitates significant post-rationalisation.

What is true is that growth continues to be unbalanced. The service sector has kept the economy going over the past six months, with retailing and hospitality especially strong.

Hammond said at Microsoft that while he expected the fall in the value of the pound to slow consumer spending through its impact on imports, he had been pleasantly surprised by how slow the effects from the depreciation of the pound had been.

Economic performance in the second half of 2016 means that forecasters have been revising up their growth estimates for 2017. A few months ago, the expectation was that Hammond would use his March budget to provide a fillip to the economy. The chancellor no longer deems that necessary. The budget is going to be a dull affair.

Shareholder unrest stamps out £3m pay rise for Imperial Brands boss

Jill Treanor

Shareholders have blocked a multimillion-pound pay rise for Alison Cooper, chief executive of Imperial Brands, in a move that is likely to be viewed as a warning signal to other FTSE 100 companies aiming to hike the bonuses of their bosses.

The maker of Gauloises and John Player cigarettes issued an unexpected announcement to the stock exchange yesterday to say that, after speaking to shareholders, it will no longer put its new pay policy to a vote at Imperial's annual meeting on Wednesday.

The policy, which must be voted on every three years, would have boosted Cooper's pay from £5.5m to a potential £8.5m a year from increased bonus opportunities.

The move demonstrates that the company feared the proposal being thrown out by investors. The decision by ISS, the proxy voting agency which is influential with major US investors, to recommend a vote against the policy had signalled that a sizeable revolt was on the cards. Imperial's chairman, Mark Williamson, said investors had changed their minds about backing the plan. "We have been actively engaging with shareholders for some time and while we received considerable support, it is clear that views have changed over that time and that the right course of action now is for the board to withdraw the resolution," he said.

However, Williamson also suggested he believed the pay rise was needed to prevent the company's top bosses from quitting and for it to be able to hire new executives: "The board continues to believe that revising the policy is necessary for retaining and attracting the right calibre of talent to ensure the continued sustainable growth of the business and we will re-engage with shareholders to reach a consensus on this important issue."

David Haines, who chairs the company's remuneration committee, also said the pay rise was needed because Cooper and other top executives were underpaid. He described their pay deals as "significantly below the average for companies of our size".

Critics of high pay said the move was a warning to bosses about pushing through pay rises - and urged investors to keep up the pressure.

Stefan Stern, director of the High Pay Centre, said: "This is the first sign that some institutions are going to be a bit tougher this year, so it looks like good news. But, just as one swallow does not make a summer, one example of effective criticism does not make a shareholder spring. The question is whether asset managers will continue to engage critically in this way."

During Theresa May's campaign to become prime minister she highlighted pay inequality. The government has since published a consultation which appears to backtrack over installing workers on boards to rein in excessive bonuses.

Last week, BlackRock, the world's biggest fund manager, signalled it intended to take action on executive pay.

Imperial Brands claimed that the pay of Alison Cooper and other executives was 'significantly below the average for companies of our size'